

S-E-C-R-E-T

AREA: BLOC/FREE WORLD

RD-C-61-0270

SUBJECT: Bloc Merchant Shipping Cartel In Asia

1 December 1961

REQUIREMENTS (Individually Classified)

1. Reporting is desired urgently on any new moves whatsoever made by any Sino-Soviet Bloc nation concerning shipping services in Southeast Asia. This includes not only new agreements or discussions concerning agreements with South and Southeast Asian countries but also any plans, discussions or announcements made in the Bloc countries. (S)
2. Evidences of rate-cutting by any Bloc ships anywhere in the territory from the Red Sea to the Far East may be among the best clues to the implementation of this possible cartel. (C)
3. An effort should be made to identify the companies acting as agents for Bloc shipping companies (except Polish) in Asian ports, particularly Karachi, Bombay, Calcutta, Singapore, Belawan, Djakarta, Bangkok and Sihanoukville (Kampot). All Polish Ocean Lines agents in these ports are known and all Bloc agents in Rangoon are known. (C)
4. Any change in agents, or plans to change should be reported. (C)
5. All calls of Bloc ships at any port lying between the Red Sea and Communist China should be reported in greater detail than at present. Information on calls should include whenever possible cargo loaded and discharged at the port in question, the origin and destination of the cargo, advertisements of Bloc ship calls (in the press or by circular), and rates (or rebates) offered compared to Conference rates. (C)

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ATTACHMENT To RD-C-61-0270

BLOC MERCHANT SHIPPING CARTEL IN ASIA

Since 1960, the Bloc has undertaken a series of moves in Southeast Asia which may culminate in a wide and intense shipping offensive in the area. Apparently, the main purpose of the offensive will be economic penetration, but harassment of the established Western liner services in the area also seems to be a consideration.

In an article published in April 1960, Dr. M. Schelzel, Director of the Institute of Sea Shipping of the Rostock University, made a strong and unequivocal statement of Bloc intentions to "oppose the imperialist shipping monopoly," and to provide coordinated shipping services, "in principle" on a bilateral basis, to the emerging national states. Several such bilateral shipping agreements now have been concluded, and, because most of these newer nations have no fleets as yet, Bloc ships are in a position to monopolize the trade.

Although the CEMA Transportation Commission was discussing Bloc efforts in the field of ocean transportation as early as August 1957 and Bloc press releases since then have reiterated the intent to pool merchant ships under the coordinated control of CEMA, the only concerted actions taken until 1960 seemed to be special services provided by ship-owning and ship-building CEMA members to other members. In June 1961, however, West German shipping circles reported that the Soviet Bloc was discussing plans for setting up a Central Shipping Bureau with extensive powers including assignment of Bloc tonnage. It was also reported at this time that the CEMA Shipping Commission would devote itself to a greater extent to the problems of a common shipping line. These reports were officially confirmed by an East German publication in July 1961.

In 1959, only the USSR and Poland had ships calling regularly in Southeast Asia. The agent for the Soviet Black Sea Steamship Company in Rangoon is Steel Brothers and the agent for the Polish Ocean Lines (PLO) and Sinofracht is Heilgers (Burma) Ltd. In May 1960 the East German shipping company, VEB Deutsche Seereederei (VDS) put the 10,000-ton freighter Halle into Rangoon, giving the agency to the Burma Agents Corporation on a one-time basis. At that time Burma Agents Corporation was already handling Czechoslovak and Rumanian chartered ships.

Between May and August 1960 the VDS was planning scheduled services in Southeast Asia and was inquiring into the shipping market both through the Burma Agents Corporation in Burma and through SOGEMAR, its agent in Antwerp.\*

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\* At that time SOGEMAR represented PLO, Chipolbrok (the Chinese Polish Shipbrokers Corp.), the Czechoslovak Ocean Shipping Company, and the VDS. In the spring of 1961 all of these agencies were turned over to PSAL Soc. Am. de Transports Internationales except the agency for VDS.

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SOGEMAR sent a representative to Rangoon in July to talk with Heilgers Ltd., which was interested in the East German agency. The Burma Agents Corporation, however, which also operates an export/import business, was awarded the agency. Between May and December 1960 eight East German ships called at Rangoon and so far as is known they were all handled by the Burma Agents Corporation.

During the week of 11-17 September 1960 the Commercial Counselor of the Soviet Embassy in Rangoon, S.A. Krylov, called meetings of all Sino-Soviet Bloc commercial representatives in Rangoon to discuss the merging of all Bloc merchant shipping operations in the area. Rangoon was selected as headquarters for the cartel and Burma Agents Corporation was asked to take the general agency for it. The plans included exploitation of the area between the Red Sea and the Far East, with fleets pooled in effect into one line with coordinated schedules. Any port would be served even if cargo potential was uneconomical and freight rates would be cut as necessary to secure the trade and to drive out the established Western liner operators.

Although it was understood by Burma Agents Corporation that Communist China was not at that time an active participant in the cartel, it was believed that it would join in January 1961. This cartel was to be strictly a political move and while the Burma Agents Corporation continued to handle Bloc ships in purely commercial business, it apparently did not desire to become involved in a politically motivated Bloc cartel.

During the week of the Bloc conferences in Rangoon, the VDS placed advertisements in the local newspapers announcing the beginning of regular service with monthly sailings between Rangoon and the UK/Continent, with the Burma Agents Corporation as agent. It was reported that the VDS had been refused admittance to the Bay of Bengal Homeward Conference and was planning to begin a rate war. The East German ships did call as reported, loading substantial quantities of cargo at lower than conference rates. By December 1960 a freight rate war was in progress. The Conference in London had approached and apparently threatened the VDS in Berlin to meet Conference rates. At the same time the Burma Exporters Association in Rangoon asked the Conference membership to lower its rates to a par with the VDS rates. Subsequent reports were vague and conflicting concerning any agreement between the VDS and the Conference. However, East German ships continued to call in the area between February and June 1961, loaded substantial amounts of cargo, and the Conference lowered its rates several times to match the persistently lower VDS rates. Since June 1961 four of the East German ships formerly on the Far East run have been switched to the Cuban, Canadian and South American runs. Three other ships which could have called at Rangoon homebound have not done so. Since July the Conference has raised its rates from the low levels reached in May 1961, but only to between 65 and 75 percent of the rates in effect prior to the freight rate war.

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Meanwhile the Soviet Commercial Counsellor in Rangoon, Krylov, was replaced in December 1960 by Nikolai S. Savinov. Mr. Savinov was reportedly a former Sovfracht\* employee, and probably still works for this agency. He reportedly arrived in the Burma area two or three months earlier for the express purpose of handling preparations for the Bloc shipping cartel.

Concurrent with the activities discussed above, other members of the Bloc were taking steps apparently related to the overall program for Bloc domination of merchant shipping in Asiatic waters. Between January and August 1961 the first Czechoslovak ship and the second Rumanian ship called at Rangoon and were handled by Burma Agents Corporation. Prior to 1961, only Czechoslovak and Rumanian chartered ships called at Rangoon. In July 1960 the Czechoslovak ship, the Kladno, (12,500 GRT), the first Bloc ship to call at Cambodia, called at Sihanoukville to discharge cargo from Czechoslovakia.

In December 1960 Prince Sihanouk announced the formation of a Czechoslovak-Cambodian shipping company (Khmero-Czech Shipping Company) operating between Sihanoukville and Europe, and a Communist Chinese-Cambodian shipping company (Sino-Khmero Shipping Company) operating between Sihanoukville and Communist China. A Czech delegation arrived in Phnom Penh, 28 January 1961 to discuss Czech aid proposals, among them the joint shipping company. Chinese shipping technicians were in Phnom Penh in April 1961. In July 1961 it was announced that the Sino-Khmero Shipping Company would be financed half by Cambodia and half by China and that the company would operate two 1,500 ton ships with a projected annual capacity of 150,000 tons of cargo. Inasmuch as this would mean at least 50 trips a year for each ship, fully loaded each way, either the total tonnage figure is incorrect or more ships will be operated by the company. In 1961 two shipments have been noted going to and from Haiphong and China, one of them on a Cambodian ship, and there probably have been other such shipments.

In January 1961 the Thai Under-Secretary for Economic Affairs announced to the press that Polish ships had been invited to resume calls at Bangkok. In November 1959 Polish service to Bangkok ceased when the Thai government closed its ports to all Bloc ships except those from Bloc countries with whom Thailand had established diplomatic relations. The Thai invitation to Polish ships in 1961 is somewhat unorthodox inasmuch as there are still no diplomatic relations between Thailand and Poland. The Thai announcement said that the invitation to Polish ships was a measure against high freight rates, a problem which has been a matter of concern to the Thai Export Promotion Committee since the Conference to Europe raised rates 15 percent in September 1960. The Polish ships have offered space at rates 20 percent less than Conference rates and the Thai Under-Secretary said that negotiations are going on with other non-Conference lines to serve Bangkok but would not identify those lines. Polish ships have

\* Soviet ship chartering agency and freight broker.

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called at Bangkok regularly throughout 1961. Furthermore at least two East German ships, which had previously called at Rangoon, called at Bangkok in October and November 1961 lifting cargo for Europe. Rates offered are not known.

Although China is still using a substantial number of chartered Western ships to carry its own domestic coastal traffic, in the spring of 1961 Communist China sent its first ships into international trade other than to North Vietnam and Hong Kong, thus confirming the reports of the 11-17 September 1960 meeting at the Soviet Embassy. On the second trip of the Heping, Hong Kong reported that the freight rates quoted were 30 to 40 percent below Conference rates and that local shippers estimated that only the Japanese lines could withstand such competition on a large scale. To date there are three Chinese ships (5,500-6,000 DWT) operating on the line between China and Ceylon, calling at least at Indonesia, Burma and North Vietnam enroute. It is not known whether rates have been cut from these territories also.

In August 1961, it was reported that the Soviets were still anxious to start a cartel in Asia. Present planning is that 12 to 15 Soviet ships will operate between the Black Sea as the western terminal, and Bangkok or Singapore as the eastern terminal, with calls at all Southeast Asia countries and the Persian Gulf and Red Sea. Soviet officials have stated that China was planning eventually to place 15 to 20 ships into the cartel, with the same terminals and route as at present and to expand the service to include Cambodia and the British Pacific Isles. The Satellite ships will operate on the entire route--China to the Red Sea--but plans are not firm as to the number of ships. Soviet officials have reiterated the plan to make calls regardless of the lack of profitable amounts of cargo and to cut rates persistently below Conference rates. They hoped to have an agency established in time to put Soviet ships on the run in January 1962 and to have the entire cartel in operation by June 1962.

Polish Ocean Lines officials have expressed reluctance to go along with a cartel because they felt they were already doing quite well commercially in the area. The Polish official said, however, that if Moscow insisted Warsaw probably would have to comply.

If Burma Agents Corporation refuses to accept the general agency, the Bloc will have to make other arrangements, probably with some other small shipping firm or shipbroker, possibly with Heilgers (Burma) Ltd. The latter is already handling Polish ships and the Chinese-chartered and Chinese-owned ships. Heilgers also attempted to secure the agency for Soviet-chartered and Soviet-owned ships in 1954 but lost out to Steel Brothers, and again in 1960 they lost to Burma Agents Corporation in the attempt to secure the East German Line agency.

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